OPERATIONS

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E. **OPERATIONS**

OVERVIEW

The Region is responsible for cigarette production at our Swiss affiliate, FTR, and at our 15 licensees.

REGIONAL VOLUMES BY SOURCE
(millions)

	LE 1989	1990	1991	1992	CAG 1989LE -1992
PM USA	25,323	28,182	28,609	26,418	1.4%
FTR Switzerland	9,592	9,788	10,304	10,744	3.9%
PM EEC	224	311	361	418	23.1%
PM Brazil	3,722	3,427	3,899	4,379	5.6%
Licensees	16,534	16,810	20,271	25,331	15.3%
Total Region	55,395	58,518	63,444	67,290	6.7%
MEMO FTR SALES					
FTR to EEMA	9,592	9,788	10,304	10,744	3.9%
FTR to EEC	2,860	2,568	2,694	2,819	9.5%
Total FTR sales	12,452	12,356	12,998	13,563	2.9%

PM USA will continue to be the primary source for the Region. PM Brazil has become the major source of exports to the Region after USA, due to cost advantages provided in terms of blend and conversion costs.

Local production under license will reach 25.3 billion units in 1992 due to the planned local manufacture in Turkey. The start of local manufacture in Turkey in 1991 will result in a switch from US cigarette exports to the Region to exports of cut filler, basic blend and flavors.

During the plan period, the main challenges will be to:

* ensure adequate production capacity by source to satisfy the Region's volume requirements.

* establish local manufacture in Turkey.

* maintain manufacturing flexibility to satisfy demand fluctuations in volatile export markets, and to meet increasing market segmentation and brand proliferation, as well as compliance with changing product legislation.

* maintain the quality levels of products manufactured under license as close as possible to the quality levels of US and European products.

* supply increasing volumes of value brands which are competitive in terms of cost, quality and sourcing legend.

* support the expansion of our business in Eastern Europe, with both exports and license production, where the latter will warrant greater technical advisory assistance, on-site supervision of production, and involvement in factory renewal programs, potentially including PM equity investment.

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FTR

	RF 1989	1990	1991	1992
Factory yield (%) Marlboro	104.7	104.8	105.0	105.2
Quality index (penalty points)	300	280	260	250
Cigarette firmness (mm) Marlboro	3.0	3.0	3.0	2.8
Cigarette rejects (%) (Make/Pack)	4.0	3.8	3.6	3.5
Efficiency (%) (Make/Pack)	79.1	79.2	81.5	83.5
Productivity ('000 cig/labor hour)	15.7	17.9	18.1	18.5

Safety and Security

Safety is a top priority objective. Risks increase with the introduction of more sophisticated high speed equipment and increasing pressure for productivity. To minimize loss to employees, processes, and property we shall:

* provide periodic specialized safety training to personnel working in areas where special hazards exist.

* conduct routine safety audits to identify and correct unsafe practices and unsafe conditions.

* continue employee involvement in searching and solving safety problems.

* promote a pro-active approach to safety by designating in-plant safety groups and actively pursuing effective safety measures.

FTR Serrières and Onnens have limited protection against external, hostile actions. The specific site of Serrières renders such protection difficult and costly. We shall:

* continue to monitor the risk of hostile actions with local and federal police and exchange information with other PM affiliates.

* evaluate potential risks and propose action plans.

* establish a contingency/catastrophe plan.

Quality

Our objective is to produce the best quality products on the Swiss market, and to remain the quality leaders in all market segments in which our products compete.

During the Plan period, FTR will implement the Project Park machinery developments, as well as the primary optimization program aiming to obtain more filling power, less tobacco degradation, improved taste uniformity and firmer cigarettes.

Quality training for all personnel will be required with the introduction of more sophisticated high speed equipment, electronics and changes in materials and processing methods. We shall increase employee involvement in searching and resolving quality problems, and review all consumer complaints with cigarette manufacturing personnel for input on corrective action.

Cost and Productivity Improvements

During the Plan period, FTR will continue to pursue all opportunities to control and reduce the cost of goods manufactured, without compromising

quality standards. Our objectives over the Plan period are to improve the factory yield by 0.5 %; to reduce cigarette rejects by 0.5 %; and to increase overall efficiencies of make/pack equipment to 83.5 %.

The primary optimization program will increase tobacco yield and reduce labor requirements.

Secondary efficiencies will be increased through the use of automated production information systems for downtime analysis and Project Park improvements.

The filter department will be restructured, replacing old equipment, introducing automatic filter feeding and shooting to makers, and reviewing manning requirements.

Make/pack wastage will be reduced by developing materials more capable of operating on high-speed equipment, and performing audits of waste materials and communicating waste performance factors to all employees.

Output per manhour (SVC) will rise from 15,700 to 18,500 cigarettes over the three year Plan period. Including FME personnel, output per manhour will rise from 9,200 to 10,800 cigarettes.

A new union agreement will become effective January 1991. The negotiation process is now beginning, with opening discussions with the Union. We have maintained good labor relations and expect no major departure from the terms of the current agreement. We foresee no change in the hours worked per week, two or three general wage increases, with wages otherwise rising in line with the cost of living index, and a contract term of 4 to 5 years.

Manufacturing Capacity and Flexibility

During the Plan period, FTR manufacturing capacity and production flexibility will be required to satisfy volume requirements, to meet market segmentation and the increase in brand offerings as well as to comply with changing product legislation. Our objectives are to increase cigarette manufacturing capacity and to maintain flexibility to meet these demands.

Additional secondary capacity is needed to support increased cigarette production requirements. Secondary capacity will be raised by installing two high speed link-up groups, and by implementing all viable technical developments leading to increased productivity.

All opportunities for product and packaging standardization will continue to be explored and implemented, where appropriate, and new brand introductions and product modifications will be handled more efficiently.

We shall reduce the effects of demand fluctuations through the implementation of the logistics study, Concept of Integrated Requirements Planning (CIRP). More flexible working hours will be negotiated with the Workers' Council, and a reserve of qualified polyvalent operators will be assured. Appropriate production equipment will be maintained in ready-to-run condition to be brought into operation on short notice. We shall optimize the machinery mix and minimize downtime during changeovers, in order to achieve the output of more brands from the same machinery.

Production space is a critical constraint with the current brand mix. There is no spare space available for further product diversification or for the introduction of new technologies. We shall evaluate the transfer to the Onnens Warehouse of, for example, filter production, low volume make/pack equipment, cut-rag, and ET. Meanwhile, discussions will continue with communal and cantonal authorities concerning expansion of the FTR site.

LICENSEES

Finland

	RF 1989	1990	1991	1992
Factory yield (%) Marlboro	100	101	101.5	102
Quality index Marlboro	300	290	280	270
Cigarette firmness (mm)	3.0	3.0	3.0	2.9
Cigarette rejects (%) (Make/Pack)	3.8	3.5	3.2	3.0
Efficiency (%)- Link-up	78	80	81	82
Productivity ('000 cig/labor hour)	15.5	16.2	16.9	17.6

Quality

Our objective is to continue to manufacture our brands with a quality superior to the competition.

Modifications are on hand for the latest high-speed HL packer, and these will be extended to the older high-speed packer once expected quality improvements have been achieved.

We shall reinforce the quality commitment of operators and fixers through an improved bonus system based on tobacco usage, efficiency, consumer complaints, and the PM Weighted Quality Index.

We shall work with our licensee to improve the present Incoming Material Control System. NTM quality will also be further enhanced through intensified technical assistance to the four local printers, and cooperation with the local cigarette paper supplier to reduce variations.

Cost and Productivity Improvements

Factory yield will be raised through optimization of the winnowing system; improvement in the cut filler handling/feeding system; and increasing the filling power of stems by increasing the soaking time of the preblended stems.

Productivity of existing and future equipment will be enhanced by:

* evaluating and, if feasible, installing a filter shooting system,

* installing a second cut filler blending and storage silo in order to reduce handling,

* increasing secondary efficiencies through automated production information systems (MIS) for downtime analysis and by selectively implementing Project Park improvements,

* automating finished product handling,

* encouraging ATO to invest in new technologies and equipment which will further increase productivity.

Costs of NTMs as well as wastage will be better controlled. We will negotiate optimal prices from suppliers that are common to both ourselves and our licensee. A bonus payment based on NTM wastage reduction will be evaluated. Standardization of NTM's for different products will be continued.

Eastern Europe

Maintenance of quality standards will continue to be a critical issue in our licensees' factories. Equipment upgrading and import of tobaccos and NTMs are often necessary conditions for quality improvements for many of our licensees. We will continue with our efforts to train, educate and motivate our licensees' personnel. We will provide technical assistance to improve quality and monitor local tobaccos included in our blends to ensure full compliance with our specifications. During the Plan period, we will organize another "Quality Workshop" during which all quality parameters of EEMA/EEC brands manufactured under license will be evaluated in order to establish action plans where needed for improvements.

In Yugoslavia, We will provide technical assistance for the installation and start-up of 4 Mark 8/Max 3-5/HCF groups in 1990, and 2 Mark 9/Max S/HCF groups in 1991/1992.

In DDR, we will increase the capacity of Marlboro production and start the production of L&M under license. We will implement the manufacture of the joint brand foreseen under Project Hit, when this project goes forward.

In Eastern Europe generally, we will provide the necessary Operations assistance to support our business expansion. In addition to working within existing agreements, we will provide the necessary expertise to evaluate and undertake new ventures, whether they be within the context of a joint cooperation agreement or on the basis of equity participation. We are beginning with an assessment of the Eger Tobacco factory in Hungary, and the Krakow factory in Poland, where the potential to work with tobacco dealers and the local leaf processing operation to rationalize the leaf industry is also under consideration.

Africa

Once approved, we will completely overhaul the necessary make/pack equipment in Nigeria, and relaunch Marlboro produced with cut filler imported from US, with NTMs from Europe. In addition, we will provide technical advisory assistance for all factory functions, as required.

In Egypt, we will support the launch of Merit in 1990. We will negotiate equipment standardization for the production of Marlboro, and ensure that the new manufacturing contract agreement will provide for increased PM control over product quality parameters, regular supply of spare parts, and equipment maintenance.

In Algeria, we will assist the Area in negotiating the planned capacity increases, and support SNTA in implementation. Within the conditions of the new license contract, we will strive to improve operating conditions to secure product quantity and quality, and to include a preventive maintenance program and stock policy for spare parts.

We will also support the Area in the renegotiation of the license agreement for the Ivory Coast, targeting improved operating conditions, and refining the training program. We will also strive to establish an ET add back capability to bring the taste closer to the US Marlboro.

In Senegal, we will commence the manufacture of L&M under licence for 1991. We have determined that the make/pack contingency plan for Senegal is not viable, and thus, we will evaluate the technical and economic viability of other alternatives, such as export from the Ivory Coast to Senegal. We will also refresh our evaluation of the Bolloré Group's holdings in West & Central Africa as part of our broader analysis to determine the feasibility of purchasing Bolloré tobacco assets, in whole or in part.

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USA SOURCING

The continued segmentation and sophistication of the Region's markets has been constantly increasing the number of brands and pack executions, further complicating the introduction of new products sourced from the US. The same applies to tobacco and ingredients.

During the Plan period, we will reinforce our technical and human resources to provide more frequent and more accurate forecasting and planning procedures for product ordering, as well as coordination between PMI/PM USA and the Region. We will work together with PM USA to improve information procedures in order to obtain accurate and regular data on new project status to ensure the timely and cost effective introduction of new products in the Region's markets.

BRAZIL SOURCING

Brazil sourcing is an integral part of our value brand strategies. The development of new products in the full flavor and light segments for Africa, Lebanon, and GCC will continue to play a central role in our sourcing strategies. We will closely monitor the production capacity. We will develop contingency plans addressing the capacity situation if volume requirements significantly exceed the current expectations, where contract manufacture with Argentina is a possibility.

FML

We will pursue all possibilities to promote the FML polypropylene filter technology in USSR and DDR to generate hard currency in order to enhance the growth of our business in these countries. Trials are now underway in the DDR.

AGRONOMY

Poland, Yugoslavia and Hungary will remain the key markets where our expertise in agronomy will yield the most positive results in terms of producing tobaccos from which we can benefit, and developing goodwill with our partners.

We will continue our trials in Turkey to grow flue cured tobacco that potentially could be introduced into US-blend products. We will strive to influence the State Planning Organization's study on the economic viability of growing Burley and Virginia tobacco in Turkey, where unrealistic expectations could encourage the retention of the protectionist import duties for tobacco. Competitor moves will also be closely monitored.

LEAF OPERATIONS

With the support of PM USA and EEC Leaf departments, we will select and absorb additional quantities of Eastern European leaf of acceptable quality, to provide necessary hard currency for our Eastern European licensees.

We will continue to monitor all local tobaccos included in our blends in Eastern Europe, to ensure that they are in full compliance with our specifications.

We will assist and advise our licensees in the blending issues related to local leaf inclusion, and assure that they have the necessary personnel to manage the blending, leaf duration, and crop phase-in operations.

VALUE BRANDS

In the low price segments, value brands will play an important role in our pricing strategies in the GCC, Africa, Levant and Eastern Europe markets. Our efforts to develop this segment in these markets will continue in the following areas:

* Development of a cigarette, ex-FTR, of acceptable taste quality at a lower cost than Visa.
* Development of products, ex-PM Brazil, in the full flavor and Light segments.
* Development of a 100 mm Oriental cigarette for Turkey using domestic grades.
* Development of products using Swiss tobaccos.

REGIONAL PROJECTS

Sauna

We will finalize the development of a channel-ventilated cigarette in response to Barclay. A prototype has been developed for this project using a plastic fluted filter. Concentric and other filters will also be investigated to challenge Barclay in the light of recent changes to test methods.

Paradox

We will develop an 84 mm cigarette with the concentric filter (33 mm filter and 38 mm tipping) for Norway, Sweden, and Switzerland.

The work on filter development will continue. The project requires special production equipment for filter making and prototype development.

TURKEY LOCAL MANUFACTURE PROJECT

Negotiations to form a joint venture owned by PM, Sabanci and Tekel continue with the Turkish authorities. The project assumes that the joint venture will take over the existing Maltepe factory located in Istanbul and owned by Tekel, as well as adjacent land of sufficient size to enable the construction of a new factory for US blend products.

The project envisages the manufacture of PM brands in the existing facility during the initial phase. This production is targeted to begin in mid-1991 on a cut filler basis, with a switch to Basic Blend some 18 months later, once the upgrade of the current Maltepe primary has been achieved. The primary upgrade will include an increase in capacity sufficient to meet the future requirements for Oriental leaf for both Maltepe and PM's Bogazici. In parallel, a new, separate factory for US blend products will be constructed, with full capacity reached in year 4 of the project.

Initial Maltepe volume manufactured in the Maltepe facility will approach 25 billion units. The excess requirements of some 12 billion units will be contracted out to other Tekel factories. By 1996, we will be able to accommodate the total Maltepe volume requirement in the joint venture facility.

With respect to secondary equipment, we will use linked Protos 9000 and GDX1 groups for PM brands. For the Oriental products, there will be a gradual transition from the existing equipment to Mark 9s, as of 1992, and GDX1s, as

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of 1993. This high speed equipment is necessary to reach sufficient capacity within the space constraints to meet market requirements.

The project envisages a 3 shift operation for secondary production, 2.5 shifts for the primary until 1994 and 2 shifts thereafter, with a 6 day work week. There are no legal or union constraints with respect to a 3 shift operation. Today, the Maltepe facility is over staffed by some 1100 persons. We have agreement in principle from the Turkish authorities that the problem of over employment should be resolved by the government and not the joint venture. Redundant employees are expected to be absorbed into other Tekel businesses or retirement arranged.

Discussions with PM management in the US have begun with respect to staffing with respect to the project team, implementing production and fulfilling ongoing requirements once production has started. We intend to identify the project team early next year, with selected individuals expected to support the project on a part time basis.

The project team is expected to see the project through the design, building and installation phase. With the start up of production we will look for support in staffing the facility, training, and follow-up supervision. In addition to direct production labor, we need to address all plant services requirements, as well as administrative functions.

Operations will continue to support commercial negotiations, and undertake any additional technical feasibility studies that may be required within this project.

PROGRESS IN 1989

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F. PROGRESS ON 1989 - 1991 STRATEGIES

This report is structured along the lines of the objectives and priority strategies identified for the Region in the 1989 - 1991 Plan.

1989 UNIT VOLUME, EARNINGS AND MARKET SHARES

The EEMA Region will ship 55.4 billion units in 1989, a 9.6% increase over 1988. US-sourced exports will grow 9.2% to reach 25.3 billion units, and exports from Brazil will rise 72.4% to 3.7 billion units.

Net income for 1989 will be $190.6 million, up 9.2% over 1988. The most notable income growth will come from Turkey - where the growth will be $ 16.1 million, yielding an increase of 22.5% over 1988; and from Scandinavian duty free where income from operations will be up 31.6%.

Record market shares will be registered in all major markets except Saudi Arabia. All Scandinavian markets will show gains, and Finland's share will be up 1.6% points to hit 63.9%. Switzerland will add another 1.0% point to reach 39.4%. The domestic Turkey market share will also rise 1.0% point, to 13.3%. All GCC markets will grow market share, with the single exception of Saudi Arabia where our premium share growth has not been matched in the expanding cheap segment. Market shares are up throughout Eastern Europe; particularly noteworthy are the increases in the profitable and growing hard currency business, with Poland exports up 10.2% points to 45.1%, and Yugoslavia up 0.5% points to 40.0%. In the Levant, market shares are up in Lebanon and Iraq. The Mahgrebian markets of Algeria, Morocco, and Tunisia will also all record increases in market share.

PEOPLE

We have re-evaluated the deployment of our field staff in support of HRP objectives, resulting in reorganizations which both strengthen and rationalize our resources.

Staffing and the development of current local staff remain the priorities in Scandinavia/Finland. With the appointment of a new Area Director and the hire of a highly competent Area Manager Sweden, efforts are now focusing on the need identified in our Human Resource Planning process to test and develop local staff and strengthen the middle management level (and succession) across the Area. As part of an aggressive recruitment campaign for Scandinavian/Finnish graduates from leading US universities, one trainee has been hired and further trainee positions will be filled to strengthen local succession. This effort will also address the problem of employing local staff with the required geographic mobility.

The EPSAS organization in Turkey has accomplished most of its major staffing goals in support of market growth. A new District has been opened in Trabzon. The training, development and increased professionalism of existing staff, particularly in the Field Force (which will number 95 as of October, 1989) is a high priority.

In Switzerland, a new organization structure has been implemented. This addresses the need for increased development of current talent, and will resolve potential organization blockages which have remained a key Human Resource Planning issue. The recruitment and development of HEC (business graduates) continues as existing trainees are being developed through a structured series of assignments. Two additional trainees are anticipated for hire in the coming year. The rejuvenation of the Swiss Sales Force has been assisted through the appointment of a capable new Vice Director of Sales.

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The Middle East Area has been reorganized to address the need to streamline headcount, increase coordination/linkages with strategic HQ functions and decrease heavy Area staff infrastructure. The reorganization was based on the closure of the Bahrain Office and the return to Lausanne of the Area Director. Existing staff were redeployed and/or relocated to new positions and two former Middle East staff assumed positions with the HQ Marketing function, providing some continuity to Middle East issues from their new positions.

The African organization has been reconsolidated and rationalized through the appointment of a General Manager for West and Central Africa and the closure of the Cameroon field office. As part of our Human Resource Planning Process, the new organization will be reviewed in terms of strengths and weaknesses to identify corrective structural/staffing action.

Together these two reorganizations have saved $3 million.

The important markets in Eastern Europe and the Soviet Union have been restructured and strengthened, and several appointments/promotions have been made in this regard. To ensure that identified growth opportunities are given the necessary managerial focus, the General Manager USSR now reports directly to the General Manager Levant & Iraq. An US national who is fluent in Russian has been hired to complete staffing for USSR work.

The Region has 15 incumbents in trainee or developmental positions with 7 recruited in the last 12 months. Over the same period, the Region has experienced the following movements in the managerial group: 16 hires, 23 promotions, 11 transfers, 16 lateral moves and 10 upgradings.

PRICING

Duty Free: Price increases have been regularly implemented in virtually all duty free markets. The net FAS price for Marlboro in Scandinavian duty free ranges from $29.76 to $31.00/ 000, in Turkey duty free it is $26.93. In the Yugoslavia hard currency business it is $28.03; and here we were instrumental in persuading our agent and, therefore, the industry to hold retail prices and absorb the additional tax imposed during the year.

Turkey: The FAS price for the domestic market has been held throughout the year at $19.10/ 000. Competitors lag our price by around $2 which has caused Tekel to set PM brands at a retail price premium over other international brands. This premium was increased during the year from TL 200 to TL 300/ pack. Though domestic inflation is running at 70-80% per annum, the retail price increases implemented throughout the year have only taken the Marlboro price from TL 2200 to TL 2600/ pack. Our pricing policy has permitted a recovery in the international segment which was severely squeezed in 1988.

We have obtained a commitment to permit free retail pricing once local manufacture has been established.

Switzerland: We have been successful in formulating an agreement in principle between the NMA cartel and the Finance authorities to implement a phased program of ex-factory price increases in conjunction with excise tax increases. The fundamental aim, thus, was to avoid any scrutiny by the Price Surveillance Office. Accordingly, the Marlboro price was raised from SFr 2.80/ pack to 2.90, from which we receive $0.21/000 in 1989. But more importantly, we are also confident in concluding further increases for both 1990 and 1991, which together will raise the pack price to SFr 3.20. This will be a major achievement.

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Finland: During the year there have been two retail price increases with another in view for January 1990. Thus, retail prices are moving slightly ahead of inflation. At both retail price increases we have constrained the Marlboro price in order to avoid widening the price premium above the domestic brand segments. We have been rewarded by share growth.

GCC: Throughout the year there has been the expectation of an imminent increase in the import duty in the four markets of Saudi Arabia, Kuwait, the UAE, and Qatar which are still at 30%. Here premium retail prices have held constant whilst price competition has been occurring lower down the price spectra. We have repositioned L&M in Saudi Arabia at SR 13/ carton to compete with Gold Coast, and held Visa below at SR 10.

Morocco: Pressure has also been applied to Winston in Morocco. At the time of an imposed retail price increase we realigned our FAS price down to $17.16/ 000 from $17.60 to achieve parity with Winston and thereby prevent a retail price premium being imposed on Marlboro.

MARLBORO

The Marlboro family goes from strength to strength. Shipments for the family will grow 6.4% to 36.7 billion in 1989. Red will increase by 4.4% to 32.2 billion, Lights by 23.2% to 4.0 billion, and Menthol and Lights Menthol by 18.5% to 0.5 billion.

Red continues to gain overall market share even in established markets where the taste preference is moving to LTN, as in Switzerland, Sweden, Norway, and most of the GCC. At the same time Lights are going from strength to strength to capitalize on this taste trend. Red remains the spearhead and motor of our growth in the less mature markets of the Region.

Turkey: Total family shipments to the domestic and duty free markets will gain 13.3% and will total 11.5 billion units in 1989. Marlboro's share of duty free will grow 1.7% points to 71.3%, and its domestic share will climb 0.3% points to 10.4%. It should be noted that Marlboro had lost share in the domestic international segment relative to Parliament which had been less affected when real retail prices were raised during 1988. However, Marlboro is now benefiting more than Parliament as smokers are trading up from the domestic brands.

Switzerland: Marlboro Red will show a resurgence in 1989. Its domestic market share will rise 0.3% points, whilst Marlboro Gold will add 0.8% points, taking the total family up from 18.5% share to 19.5% in 1989. This is particularly gratifying since Marlboro's acceleration seems to be at the expense of Camel, which has been the objective of our sustained marketing initiatives. Total Marlboro shipments will grow 5.9% to attain 3.1 billion units.

Finland: Despite Marlboro Red slipping back 0.9% points to 34.6% market share, the total family will nevertheless continue to grow by 0.3% points to a record 46.0%. Marlboro Lights Menthol is responsible for 0.9% points of this growth, and will achieve a market share of 1.4%. Marlboro shipments will increase by 46 million units to 3.5 billion.

GCC: Marlboro volume will increase in all six GCC markets in 1989, and market share will grow in all but Saudi Arabia. Both Red and Lights participate in the share growth in the smaller five markets. In Saudi Arabia, Lights will add 0.3% share points, whilst Red will edge down 0.6% points to 23.9% market share. The problem in Saudi Arabia is the continued expansion of the cheaper segments. However, even here Marlboro will actually rise 3.3% points to 63.8% share of the premium plus segment; and the recent trend promises an improvement in the overall market share. The

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total Marlboro shipments for all GCC markets will be up 8.4% to 6.4 billion units.

BRAND LAUNCHES

The 22 brands and 8 line extensions launched in 1988 will account for more than 2 billion units in 1989. During 1989 a further 37 brands and line extensions will have been launched across 28 markets, of which 12 are hard currency/duty free.

Marlboro Red Soft was introduced in Morocco.

Marlboro line extensions will have been introduced in Sweden (Lights 10s box and Light Menthol), Norway (Lights Menthol 10s box), Hungary hard currency (Lights Menthol), Bulgaria hard currency (Lights box), CSSR (Lights box and Lights Menthol Box), USSR duty free (Lights Menthol), Reunion (Lights box), Mauritania (Lights box) and Togo (Lights box).

L&M is newly entered in Equatorial Guinea, UAE duty free, Oman and Qatar. L&M Lights is a new line extension in Saudi Arabia, Kuwait, UAE, Qatar and Bahrain.

Chesterfield will have been introduced in Reunion, Lebanon, and the duty free markets of Turkey and Bulgaria.

Philip Morris Lights American is a new brand in DDR hard currency and Reunion as is Philip Morris Ultra in Switzerland duty free, following its successful domestic launch in 1988.

The other 1989 launches are Merit Ultra in Scandinavia duty free and Egypt duty free; Merit in Hungary hard currency; Visa Lights in Saudi Arabia; Congress in Guinea, and Kuwait (regular and Lights), Benson & Hedges de Luxe in Senegal, Benito and Guinea; and Bond Street (Virginia) in Benito is imminent.

DISTRIBUTION AND FIELDFORCES

We continue to make big strides through our emphasis on the supply side of our business.

We have restructured our entire distribution system for the hard currency shop business in Yugoslavia. The management of this consignment stock operation is now fully computerized; and we have introduced the use of forwarding agents from our agent's warehouses to enable direct distribution to all retail outlets, which have risen to more than one thousand. Thus, we have overcome out-of-stock problems as well as establishing improved control; and have gained share.

The study to switch to own-distribution in Sweden has been finalized, and is ready for implementation when the timing is deemed right.

The vitally important inland-distribution system in Turkey has been operated smoothly and provides a critical competitive advantage in ensuring superior distribution in a difficult environment. Our local organization has been expanded, and strengthened in terms of quality, to enabling us to broaden our geographical coverage and intensify our field operations.

In Switzerland we have finalized a proposal for a new agreement between the ASFC (NMA) and the trade which provides for a more direct linkage between remuneration and services provided to the manufacturers. It redistributes the trade's income towards those retail sectors that are more deserving, and will also favor the bigger brands.

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In Lebanon, despite the environmental situation which has interfered with our plans, we have still managed to establish a substantial local organization of over 40 people operating throughout the country.

We have also strengthened our field capability in a number of other markets including Iraq, Saudi Arabia and Kuwait.

Key account management has been the focus of much attention, encompassing DPP concepts, shop layout, merchandising hardware, training and promotions. The EEMA-initiated effort towards service stations is being implemented in several markets with Mobil, BP, and Statoil. We are collaborating with Southland Corporation (7-Eleven) in Sweden, and in Turkey where we obtained their tobacco trading license for them.

Trade incentive schemes have been implemented in various markets. These are designed to improve the level of in-store inventory and the quality of facings by rewarding all levels of personnel for performance. Concepts include the Brand Display Award, the Mystery Shopper, and Click-the-Winner.

Merchandising materials continue to be a priority and several innovations have been successfully developed. A major improvement has been effected in shop fronts in Turkey with window freezes for Marlboro and a total shop concept for Parliament.

PRODUCT QUALITY, COSTS AND SOURCING

Product quality remains our priority objective.

At FTR in Switzerland, we maintain our leadership position in the market with 273 penalty points compared with the next closest competitor, BAT, at 397 points. Marlboro comes out on top with only 153 points. A significant contributor to this performance has been systematic training accompanied by the introduction of a continuously updated quality information system.

In Finland, the quality remains excellent and rivals FTR. Consumer complaints have fallen in five successive years by a total of 30%.

The quality performance in virtually all licensee factories remains good, being at least equal to, if not better than, last year. Yugoslavia, in particular, registered the eighth consecutive year of improvement.

The replacement machines introduced in the DDR in 1988 have enabled improvements to be achieved, with penalty points reducing from 900 to 500. Fresher product resulting from West Berlin sourcing has also improved smoking characteristics.

A quality seminar involving TTG as well as regional personnel found that smoking subjectives has been further improved over the last two years for locally manufactured products. Yugoslavia and Poland could still be further improved but for the limitations of the local tobaccos.

The workshop also examined all locally printed materials, finding very few out of standard, and these are in process of rectification. This pleasing result stems from extensive upgrade activities undertaken in recent years.

The troublesome spotting problem occurring with Brazilian sourced product on the African markets has been overcome through attention to the primary operation and packing (film sealing), and to improvements in the transport, storage and distribution.

Though quality is the priority, costs continue to be squeezed. At the FTR factory, productivity is up 7%, and waste down from 3.2 to 2.7%, together

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worth $1 million. Benefits from the primary optimization program will be reinforced with the introduction of the Park developments commencing at the end of 1989.

The benefits, for example in better degradation, are now being seen from the primary upgrade that has been completed in Yugoslavia. The upgrade of the secondary section is now being undertaken.

Value brands are of growing importance to the Region.

The value brands sourced from Brazil continue to gain acceptance. The volume has grown from 2.2 billion in 1988 to 3.7 billion in 1989. The number of brands has risen from 3 to 5, with additional destinations bringing the number of brand variations to a total of 17.

Cost is particularly critical for value brands. Attention has been focused on Visa, which is manufactured at FTR for the GCC markets. Its SVC has been brought down by SFr 1.29/000 through judicious blend and printing changes.

Standardization has a major role to play in combating costs. We have made significant progress in reducing versions of pack texts and, therefore, of printed materials. Alignment of packs to recently agreed EEC standards has also brought benefits here as well as enhancing consistency.

We have reached agreement with Tekel to permit us to have the banderoles for the Turkey domestic market printed in the USA. This will bring advantages, not only in materials handling, but particularly in terms of manufacturing efficiency and flexibility as well as freight cost savings.

The Concept of Integrated Materials Planning (CIRP) is being implemented to provide FTR with regular, accurate requirement planning information. This will promote further cost efficiencies throughout the whole order/supply chain. CIRP has been devised so that these benefits could also be provided to other manufacturing sources for the Region in 1990.

NEW BUSINESS INITIATIVES

Turkey - Significant progress has been achieved this year in the substance of our negotiations for the joint venture project. The principle of acquiring the Maltepe factory with a long term license for the 37 billion unit Maltepe brand has been agreed; as has the joint venture shareholding giving PM control with 65%, Sabanci 20%, and Tekel 15%. PM brands will be licensed at a royalty of 6.5% of the net factory price, with a similar royalty to be paid for Maltepe. We have insisted that taxation changes are a necessary pre-requisite for local manufacture, and a package has been developed following our input and will be further discussed with us prior to submission to the Council of Ministers. The important principle of retail price freedom has also been established as a pre-requisite. Tekel has agreed to undertake distribution on a cost plus basis, and has accepted a joint team to determine an accurate costing and to recommend improvements. The need for parallel imports during the transition period to build up local capacity has been accepted. The key outstanding issues are the valuation of the Maltepe facility; and the definitive terms for the Maltepe license.

USSR - The project to manufacture Marlboro under contract in India for export to the USSR under the bilateral trade agreement encountered some difficulties with the Indian Ministry of Finance. The lack of hard currency exports and the high usage of imported materials were the stumbling blocks. However, we have since increased the proposed usage of Indian NTMs, and are also arranging the purchase of Indian tobacco exports which should sweeten the deal sufficiently to gain Indian acceptance. Meanwhile we expect

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approval from the Soviets in principle and to secure cigarettes within the trade agreement for implementation in 1991.

To provide the necessary hard currency to manufacture under license in the USSR we have explored a number of projects:-

The FML opportunity is being pursued, and we are at the stage of obtaining Soviet polypropylene chips and finalizing a complete feasibility study.

An opportunity has been identified to purchase and export 20,000 tons per annum of aluminum scrap. This would be worth $20-30 million. Potential customers are Reynolds Metals or Pechiney, with whom Miller and KGF are influential clients. This is being pursued.

Jordan - A proposal has been made to the Jordanian Tobacco Company to manufacture Congress under license for export duty free to Saudi Arabia. This was favorably received. A critical factor will be retention of cigarettes within the bilateral trade agreement for 1990.

CORPORATE AFFAIRS

Resources - The internal resources have been built up during the year. The budgeted resources are for 6 people in the Nordic Area, 4 in the GCC, 3 in Turkey, 5 in Switzerland, and 6 in the Regional HQ. Of these 24, we currently have 19 on board.

Externally, the Burson-Marstellar program has been established alongside the Covington & Burling effort to provide a rapidly expanding capability to merchandise and communicate our CA messages, particularly in the ETS area. Local B-M partners have been established in Finland, Turkey, and the GCC.

Of particular note is the establishment of flourishing Smokers' Clubs in Finland, Sweden, Norway, and Denmark. These have made their marks in the media; and importantly are being accepted by the authorities as smokers' representatives.

Within the industry we have been prime movers in developing the Africa Working Group, the Middle East Tobacco Association, and the Importers' Working Group/Turkey. Additionally, we are slowly bringing the Nordic NMA's and international companies together using the ETS issue as a catalyst for a formal organization.

We have also joined the Danish, Swedish, Nordic, and Swiss duty free organizations and are leading them in defense of the duty free business.

Taxation - The penal tax proposed by the Minister of Finance in Finland was defeated. In Sweden, tobacco stayed within the CPI, so moderating the tax increase. The tax burden on the hard currency business was reduced in Yugoslavia. In the GCC we expect the member states to adopt a minimum specific element in the duty structure. Detailed taxation proposals for the domestic markets have been prepared and submitted to the Finance authorities in Turkey and Yugoslavia; both of which are pending further developments. Argumentation and documentation have also been prepared to change the tax system in the Cote d'Ivoire and Egypt, and to bring down the import duties in Nigeria and Guinea. We have prepared argumentation for our distributor in Norway and are optimistic concerning the equalization of the tax burden between cigarettes and RYO. We are driving a number of studies and activities within the EFTA countries to protect the duty free businesses in the event that intra-EEC duty free is discontinued.

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Smokers and Restrictions - The development of Smokers' Clubs and the communications program based on B-M have provided a quantum leap forward in the defense of smokers' rights. Significant media exposure has resulted in the Scandinavian countries. In Sweden, in the major northern county the mandated smoking ban in public buildings has been withdrawn in favor of a more flexible approach. Also in Sweden, a major city has seen its ban on restaurant smoking overturned in the courts.

We have been active in merchandising our in-flight air quality messages. In Turkey we anticipate a reversal of the smoking ban on domestic flights. Swissair has adopted and advocates a pro-smoking policy.

We have completed an extensive indoor air quality study in Switzerland which is providing useful to the debate on workplace smoking legislation.

Constituents and Warning Labels - Together with Shook, Hardy & Bacon we have developed a basic scientific paper addressing MCL's, and we have tailored individual papers from it for Finland, Switzerland and the GCC.

The UAE Minister of Health has proposed to the Arab Gulf Health Ministers' Council to drop the requirement for the month and year of manufacture to be printed on each pack.

Standards officials in Saudi Arabia and the GCC have accepted advice in the development of the forthcoming GCC Standards for Cigarettes. Meanwhile, Kuwait and Saudi Arabia have adopted +/-15% and 20% testing tolerances (depending on the sampling method) for smoke constituent levels.

Our partner in CSSR negotiated changes to the proposed HWL from the front of the pack and obtained an attribution.

Marketing Restrictions - The CRU studies that have been concluded in Kuwait, Sweden, Switzerland, and Turkey are being distributed; as is the 16 countries' report of the IAA wherein these studies are included.

We have provided technical support for the statistical analysis of the alleged impact of ad bans on consumption, one result of which has been a published article by Boddweyn refuting the damaging Chetwynd study in New Zealand.

The Single European Market - In addition to the threat of the intra-EEC duty free ban, tax harmonization spillover could effect EFTA countries in the field of structure. We have provided documentation to the Customs authorities in Switzerland to help prevent this. Conversely, we view EEC developments as a catalyst for change with the Finance Ministry in Finland; and we are prepared to enter the debate in Denmark where the opportunity exists to bring tobacco taxes down.

MANAGEMENT INFORMATION SYSTEMS

The HQ ICS department was reorganized and strengthened during 1989, including the appointment of a Manager ICS and the streamlining of functions between HQ and FTR.

Both HQ and FTR participated actively in the Index Study. Based on the initial recommendations from the project team, the European ICS reporting lines were changed, and EEMA HQ ICS now reports to the Vice President Business Systems Europe.

EEMA HQ was the first affiliate to convert to the European Data Center. The migration from the VM to the MVS operating system at HQ was successful, and

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FTR started preparing for its conversion, scheduled for the second quarter 1990.

CIRP (Concepts of Integrated Requirement Planning), a modern and user-friendly system designed to improve production planning was developed. The decentralized part of CIRP (PC based) enables all field offices to manage current and planned shipments, stock movements and sales by customer and brand. Once a month, the 14 months rolling shipments forecast is transmitted to the mainframe computer in Lausanne, consolidated and then, dispatched to the factories. CIRP will allow a more accurate and timely production planning as well as the opportunity to proactively influence our customers to place orders on time, reducing out-of-stocks and air freight costs.

A system to manage the Yugoslavia duty-free distribution was developed and implemented. The application enables a better control of the consignment stock, provides a tool for an efficient distribution to the sales outlets, and speeds up the payment process.

An Executive Information System was successfully implemented at EEMA HQ. It provides EEMA executives with a user-friendly tool to quickly retrieve key regional business data.

Based on the European strategy to use Systems Applications Program (SAP) packages in the areas of Finance and Manufacturing, FTR implemented the SAP Fixed Assets module.

REGIONAL SCHEDULES

G. REGIONAL SCHEDULES

REGIONAL P&L

VARIANCE FROM LAST YEAR'S PLAN AND COMPARISON WITH EARLIER PLANS

REGIONAL UNIT VOLUME & INCOME FROM OPERATIONS FOR TOP 10 MARKETS

REGIONAL VOLUME, BY SOURCE

REGIONAL BRAND DEPENDENCE

REGIONAL HEADCOUNT SUMMARY

FOREIGN EXCHANGE RATE ASSUMPTIONS

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Schedule R-1

EEMA REGION - INCOME STATEMENT

($000 unless otherwise stated)

	1989 LE	1990 OB	1991	1992	% CAG 1989-1992
Unit Volume (million units)	55,395	58,518	63,444	67,290	6.7 %
Net Sales	$1,138,000	$1,222,521	$1,339,444	$1,431,183	7.9 %
Royalties & Other	40,500	41,744	51,556	65,779	17.5
TOTAL OPERATING REVENUES	1,178,500	1,264,265	1,391,000	1,496,962	8.3
Standard Variable Cost	338,900	376,881	421,067	454,085	(10.2)
Cost Deviations	4,800	10,611	11,279	11,202	(32.6)
Foreign Excise Tax	255,500	257,728	274,273	290,932	(4.4)
Shipping Expense	6,700	7,396	8,313	8,953	(10.1)
LIFO Adjustment	2,100	1,724	1,869	1,953	2.4
MARGINAL CONTRIBUTION	570,500	609,925	674,199	729,837	8.6
Fixed Manufacturing Exp.	84,000	95,570	104,269	105,375	(7.8)
AVAILABLE PROFIT	486,500	514,355	569,930	624,462	8.7
Direct Marketing	96,400	96,122	101,853	108,844	(4.1)
Promotional Expenses	800	1,556	1,724	1,912	(33.7)
Indirect Marketing	69,100	65,895	71,817	71,337	(1.1)
General & Administrative	32,300	34,145	34,494	36,951	(4.6)
Research & Development	6,100	6,025	6,236	6,554	(2.4)
Currency (Gain)/Loss	500	-	-	-	100.0
Other (Income)/Expense	-	56	-	-	-
INCOME FROM OPERATIONS	281,300	310,556	353,806	398,864	12.3
Income Taxes	97,300	107,533	121,793	136,848	(12.0)
FSC Tax Credit	(6,600)	(6,600)	(6,600)	(6,600)	-
NET INCOME	$190,600	$209,623	$238,613	$268,616	12.1 %

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Schedule R-1a

Total Region
Comparison With Last Year's Plan

(US $ millions)

	1990-1992 Three Year Plan			Last Year's Plan			Fav./(unfav.)		
	1989 LE	1990 OB	1991	1989	1990	1991	1989 LE	1990 OB	1991
UNIT VOLUME (billions)	55.4	58.5	63.4	55.7	60.4	65.3	(0.3)	(1.9)	(1.9)
TOTAL OPERATING REVENUES	$1,178.5	$1,264.3	$1,391.0	$1,242.1	$1,350.9	$1,452.9	($63.6)	($86.6)	($61.9)
MARGINAL CONTRIBUTION	569.7	608.4	672.5	601.9	645.5	683.3	(32.2)	(37.1)	(10.8)
Direct Marketing	96.4	96.1	101.9	107.5	116.5	117.6	11.1	20.4	15.7
F.M.E.	84.0	95.6	104.3	84.1	87.3	88.2	0.1	(8.3)	(16.1)
Indirect Marketing	69.1	65.9	71.8	68.7	73.1	69.9	(0.4)	7.2	(1.9)
G. & A.	32.3	34.1	34.5	35.4	36.7	38.2	3.1	2.6	3.7
R & D	6.1	6.0	6.2	6.0	6.0	6.3	(0.1)	-	-
Other (Income)/Expense	0.5	0.1	-	-	-	-	(0.5)	(0.1)	-
Total Expenses	288.4	297.8	318.7	301.7	319.6	320.2	13.3	21.8	1.4
INCOME FROM OPERATIONS	$281.3	$310.6	$353.8	$300.2	$325.9	$363.1	($18.9)	($15.3)	($9.4)

TOTAL REGION: SUMMARY OF 1987, 1988, 1989 AND 1990 PLANS

PM Unit Volume (billions)	1986	1987	1988	1989	1990	1991	1992	Plan Period Growth
1987 Plan	45.3	49.3	53.0	56.0	-	-	-	7.3 % CAG
1988 Plan	-	48.4	51.7	56.1	60.3	-	-	7.6
1989 Plan	-	-	51.2	55.7	60.4	65.3	-	8.4
1990 Plan	-	-	-	55.4 LE	58.5	63.4	67.3	6.7
Actual	46.1	48.8	50.6	55.4 LE				
Income from Operations ($ millions)								
1987 Plan	213.3	245.4	280.8	333.3	-	-	-	16.0 % CAG
1988 Plan	-	238.7	274.5	324.2	362.2	-	-	14.9
1989 Plan	-	-	260.8	300.2	325.9	363.1	-	11.7
1990 Plan	-	-	-	281.3 LE	310.6	353.8	398.9	12.3
Actual	212.3	237.7	257.1	281.3 LE				

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Schedule R-2

INCOME FROM OPERATIONS BY MARKET

	Income from Operations ($000)				CAG %
	1989 LE	1990 OB	1991	1992	89LE-1992
1 Turkey	87,500	105,057	115,689	129,082	13.8 %
2 Switzerland	62,500	57,759	64,761	69,308	3.5
3 Finland	34,500	37,403	41,277	47,431	11.2
4 Saudi Arabia	43,900	38,400	38,793	41,316	(2.0)
5 Yugoslavia	11,800	14,347	17,529	19,637	18.5
6 Kuwait	16,700	14,125	14,298	13,835	(6.1)
7 Sweden	5,700	6,271	8,575	12,552	30.1
8 Scandinavia DF	6,700	8,111	9,865	11,427	19.5
9 Cyprus Exports	3,300	7,002	9,024	10,968	49.2
10 Poland	6,000	7,563	8,878	10,444	20.3
Top Ten Markets	278,600	296,038	328,689	366,000	9.5
Other Markets	49,400	63,600	76,672	90,848	22.5
Total Areas	328,000	359,638	405,361	456,848	11.7
Regional Items					
HQ G & A	(24,500)	(25,168)	(25,688)	(27,503)	3.9
HQ Marketing/Ch.Stewart	(3,500)	(3,517)	(3,821)	(4,072)	5.2
R & D	(6,100)	(6,025)	(6,236)	(6,554)	2.4
Regional DME	(12,800)	(13,809)	(15,046)	(19,122)	14.3
Other	200	(563)	(764)	(733)	N.D.
Total Region	$281,300	$310,556	$353,806	$398,864	12.3 %

UNIT VOLUME BY MARKET

	Unit Volume (millions)				CAG %
	1989 LE	1990 OB	1991	1992	89LE-1992
1 Turkey	11,485	12,645	14,077	15,242	9.9 %
2 Switzerland	6,450	6,512	6,642	6,803	1.8
3 Saudi Arabia	5,175	5,138	5,419	5,127	(0.3)
4 Finland	4,790	4,883	4,995	5,100	2.1
5 Cyprus Exports	3,815	3,598	3,730	4,010	1.7
6 Yugoslavia	2,205	2,330	2,495	2,630	6.1
7 Sweden	1,200	1,275	1,400	1,510	8.0
8 Poland	915	1,100	1,225	1,350	13.8
9 Kuwait	1,385	1,238	1,247	1,280	(2.6)
10 Scandinavia DF	545	600	660	720	9.7
Top Ten Markets	37,965	39,319	41,890	43,772	4.9
Other Markets	17,430	19,199	21,554	23,518	10.5
Total Region	55,395	58,518	63,444	67,290	6.7 %

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Regional Volume by Source

(millions)

	1989 LE	1990 OB	1991	1992	CAG LE 1989-92
US Exports	25,323	28,182	28,609	26,418	1.4%
Affiliate Exports					
FTR Exports	3,217	3,368	3,807	4,112	8.5
EEC Affiliates	224	311	361	418	23.1
PM Brazil	3,722	3,427	3,899	4,379	5.6
Subtotal	7,163	7,106	8,067	8,909	7.5
Affiliate Domestic					
FTR Switzerland	6,375	6,420	6,497	6,632	1.3
Licensee\Third Party Production					
Licensees	14,884	14,986	18,447	23,507	16.5
PM Nigeria	1,650	1,824	1,824	1,824	3.4
Subtotal	16,534	16,810	20,271	25,331	15.3
Total Region	55,395	58,518	63,444	67,290	6.7%
MEMO FTR SALES					
FTR TO EEMA	9,592	9,788	10,304	10,744	3.9%
FTR TO EEC	2,860	2,568	2,694	2,819	9.5
TOTAL FTR SALES	12,452	12,356	12,998	13,563	2.9%

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BRAND DEPENDENCE

	(millions) 1989 LE	1990 OB	1991	1992	CAG 89/92	(% of regional total) 1989 LE	1990 OB	1991	1992	CHANGE 92-89 (pts)
Marlboro Red	32,215	34,152	36,699	38,530	6.1%	58.2%	58.4%	57.8%	57.3%	-0.9%
Marlboro Lights	4,045	4,651	5,346	5,710	12.2%	7.3%	7.9%	8.4%	8.5%	1.2%
Marlboro Ultralights	-	-	189	367	-	-	-	0.3%	0.5%	0.5%
Marlboro Menthol	300	300	303	307	0.7%	0.5%	0.5%	0.5%	0.5%	-0.1%
Marlboro Lights Menthol	155	195	248	285	22.5%	0.3%	0.3%	0.4%	0.4%	0.1%
Total Marlboro	36,715	39,297	42,785	45,199	7.2%	66.3%	67.2%	67.4%	67.2%	0.9%
Chesterfield	4,000	4,015	4,234	4,499	4.0%	7.2%	6.9%	6.7%	6.7%	-0.5%
Parliament	2,355	2,614	2,957	3,182	10.6%	4.3%	4.5%	4.7%	4.7%	0.5%
L & M	1,730	1,895	2,355	2,820	17.7%	3.1%	3.2%	3.7%	4.2%	1.1%
Bond - Sweden	200	175	150	125	-14.5%	0.4%	0.3%	0.2%	0.2%	-0.2%
Bond Street - Brazil	1,815	1,675	1,820	1,960	2.6%	3.3%	2.9%	2.9%	2.9%	-0.4%
Bond Street - Other	505	500	516	521	1.0%	0.9%	0.9%	0.8%	0.8%	-0.1%
Total Bond/Bond Street	2,520	2,350	2,486	2,606	1.1%	4.5%	4.0%	3.9%	3.9%	-0.7%
Belmont	1,380	1,451	1,504	1,562	4.2%	2.5%	2.5%	2.4%	2.3%	-0.2%
Muratti	1,505	1,483	1,437	1,430	-1.7%	2.7%	2.5%	2.3%	2.1%	-0.6%
PM Extra/Lights/ Superlights/Ultra	490	641	773	911	23.0%	0.9%	1.1%	1.2%	1.4%	0.5%
Merit	610	685	783	868	12.5%	1.1%	1.2%	1.2%	1.3%	0.2%
Link	800	778	778	778	-0.9%	1.4%	1.3%	1.2%	1.2%	-0.3%
Congress	390	356	497	639	17.9%	0.7%	0.6%	0.8%	0.9%	0.2%
Visa	664	508	535	589	-3.9%	1.2%	0.9%	0.8%	0.9%	-0.3%
Target	430	573	573	573	10.0%	0.8%	1.0%	0.9%	0.9%	0.1%
Brunette	761	781	643	533	-11.2%	1.4%	1.3%	1.0%	0.8%	-0.6%
Green Spot	375	448	448	448	6.1%	0.7%	0.8%	0.7%	0.7%	0.0%
Multifilter	225	236	241	243	2.6%	0.4%	0.4%	0.4%	0.4%	0.0%
Eve	60	67	77	87	13.0%	0.1%	0.1%	0.1%	0.1%	0.0%
Benson & Hedges	10	27	57	75	95.7%	0.0%	0.0%	0.1%	0.1%	0.1%
North Pole	71	60	55	48	-12.2%	0.1%	0.1%	0.1%	0.1%	-0.1%
Lark	34	35	38	36	2.2%	0.1%	0.1%	0.1%	0.1%	0.0%
Flint	55	48	41	33	-15.9%	0.1%	0.1%	0.1%	0.0%	-0.1%
Stanton	55	43	22	9	-45.3%	0.1%	0.1%	0.0%	0.0%	-0.1%
Others	160	129	125	122	-8.7%	0.3%	0.2%	0.2%	0.2%	-0.1%
Total	55,395	58,518	63,444	67,290	6.7%	100.0%	100.0%	100.0%	100.0%	--

Note: 1990 figures incorporate a change in the Marlboro/Parliament mix, based on current projections. LRP volumes reflect this revision.

Schedule R-3

REGIONAL HEADQUARTERS STAFF CENSUS

		1989 LE	1990 OB	1991	1992
Executive		7	7	7	7
Administration		18	18	18	18
Finance		22	22	22	22
Treasury & Bus. Develop.		12	11	11	11
Marketing Administration		30	31	31	31
Operations		42	41	42	43
Personnel		13	12	12	12
Planning		9	9	9	9
Corporate Affairs		6	6	6	6
Legal		7	7	7	7
Information & Communication Systems		24	24	24	24
Customer Services		8	9	9	10
Trainees		8	8	6	6
Total EEMA Headquarters		206	205	204	206
Total Overheads	CHF	52,874	58,524	60,538	64,936
Total Overheads	USD	32,319	33,064	34,202	36,687
Underlying cost escalation rate		6.0%	6.7%	6.7%	6.7%
Total Regional Headcount		1,659	1,683	1,701	1,718

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FOREIGN EXCHANGE RATE ASSUMPTIONS

Value of $ 1.00	RF 1989	OB 1990-1992	1989-1990 REVALUATION (DEVALUATION)
Swiss Franc	1.59	1.77	(10.2%)
Finnish Mark	4.35	4.40	(1.1%)
Swedish Krone	6.34	6.70	(5.4%)
Norwegian Krone	6.82	7.20	(5.3%)
Danish Krone	7.26	7.80	(6.9%)
French Franc	6.49	6.95	(6.6%)
Dutch Guilder	2.10	2.25	(6.7%)
German Mark	1.86	2.00	(7.0%)
Pound Sterling	1.76	1.58	(10.2%)
Turkish Lira	2290	2810	(29.5%)
Lebanese Pound	563	600	(6.2%)
Saudi Arabian Riyal	3.75	3.75	---
Kuwaiti Dinar	0.28	0.29	(3.4%)
Egyptian Pound	2.45	3.64	(32.7%)
Moroccan Dirham	8.33	9.10	(8.5%)

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NEW BRANDS

H. MARKET SCHEDULES - NEW BRAND AND LINE EXTENSIONS

Note: All ex-factory and marginal contribution quotations are annual averages.

Retail prices represent year-end quotes.

Direct marketing per 000 represents the average for the family.

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TURKEY LICENSEE - LINE EXTENSION PROFILE

CHESTERFIELD 100 SOFT

We will launch Chesterfield in order to offer an alternative at Camel's price level. The advertising will be based on the international campaign. The brand has already been introduced in Turkey DF in November 1989, to begin building consumer awareness.

US-blend; 15 mg tar; 0.9 mg nicotine; 100 mm soft

		OB 1990	1991	1992
Unit Volume	(millions)	-	-	120.0
Market Share	(%)	-	-	0.16
Total Marginal Contribution	$/000	-	-	5.76 (a)
Direct Marketing	$/000	-	-	8.33 (b)

Launch Date 1992 but dependent on PM's ability to list a new brand.

Footnote:

(a) Represents PM's marginal contribution. It does not include any joint venture marginal contribution.

(b) DME paid by licensee.

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SWITZERLAND - LINE EXTENSION PROFILE

CHESTERFIELD FULL FLAVOR AND MILD

The introduction of Chesterfield King Size complements Marlboro Red in the US blend full flavor category and will become a second leg to counter Camel, Winston and Lucky Strike. Both versions, full flavor and mild, will be launched simultaneously, as 70% of beginners choose an LTN brand. In addition, we seek to establish both offerings before public deliberations on the proposed ad ban begin. The advertising will be in-line with the international campaign.

Full Flavor: US-blend; 14 mg tar; 1.0 mg nicotine; 84 mm box
Mild: US-blend; 9 mg tar; 0.7 mg nicotine; 84 mm box

CHESTERFIELD FULL FLAVOR

		OB 1990	1991	1992
Unit Volume (millions)		8.0	25.0	35.0
Market Share (%)		0.05	0.16	0.22
Retail Pack Price Year-End	CHF	3.10	3.20	3.30
Ex-Factory Price	$/000	23.62	24.34	24.96
Total Marginal Contribution	$/000	5.62	5.61	5.49
Direct Marketing	$/000	59.47	29.08	25.11

Launch Date September 1990

CHESTERFIELD MILD

		OB 1990	1991	1992
Unit Volume (millions)		8.0	40.0	52.0
Market Share (%)		0.05	0.26	0.33
Retail Pack Price Year-End	CHF	3.10	3.20	3.30
Ex-Factory Price	$/000	23.74	24.34	24.96
Total Marginal Contribution	$/000	5.76	5.64	5.52
Direct Marketing	$/000	59.47	29.08	25.11

Launch Date September 1990

2500066278

SWITZERLAND - LINE EXTENSION PROFILE

MERIT ULTRALIGHTS

The momentum of the launch of Merit Regular will be extended with the ultralight introduction to capitalize on the growing international ultra low tar segment. The introductory communication will focus on the product's benefits. In a second step, the advertising will be based on the sailing campaign.

US-blend; 4 mg tar; 0.4 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		30.0	50.0	65.0
Market Share (%)		0.19	0.32	0.41
Retail Pack Price Year-End	CHF	3.10	3.20	3.30
Ex-Factory Price	$/000	28.73	29.85	30.69
Total Marginal Contribution	$/000	18.91	19.64	20.12
Direct Marketing	$/000	(a)	(a)	(a)

Launch Date January 1990

Footnote:

(a) included in total family spending.

2500066279

SWITZERLAND - LINE EXTENSION PROFILE

MURATTI MILD

Muratti Mild will build on Muratti's technological heritage. It will also capitalize on the young lifestyle image the brand possesses. Muratti Mild will offer a US blend taste, and the new concentric filter technology. The brand is planned to be priced at the same level as Marlboro, i.e. 10 centimes higher than the current Muratti family, in order to reinforce the international positioning of Muratti Mild.

US-blend; 4 mg tar; 0.4 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		35.0	60.0	100.0
Market Share (%)		0.22	0.38	0.64
Retail Pack Price Year-End	CHF	3.10	3.20	3.30
Ex-Factory Price	$/000	28.86	29.85	30.69
Total Marginal Contribution	$/000	15.69	16.02	16.42
Direct Marketing	$/000	(a)	(a)	(a)

Launch Date April 1990

Footnote:

(a) included in total family spending.

MURATTI ULTRA

Muratti Ultra will build on Muratti's technological heritage by offering a novel ultra low tar product, possibly with a charcoal concentric filter. The brand is planned to be priced at the same level as Marlboro and Muratti Mild; i.e. 10 centimes higher than the current Muratti family.

US-blend; 1 or 2 mg tar; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	30.0	50.0
Market Share (%)		-	0.19	0.32
Retail Pack Price Year-End	CHF	-	3.20	3.30
Ex-Factory Price	$/000	-	29.85	30.69
Total Marginal Contribution	$/000	-	17.80	18.26
Direct Marketing	$/000	-	(a)	(a)

Launch Date April 1991

Footnote:

(a) included in total family spending.

2500066280

SWITZERLAND - LINE EXTENSION PROFILE

MARLBORO ULTRALIGHTS

Today, Marlboro is the only major international brand family without an offering in the ultralight segment. Hence, the ultra light line extension will improve our competitiveness against Camel, Winston and Barclay.

US-blend; 5.0 mg tar; 0.4 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	60.0	155.0
Market Share (%)		-	0.38	0.99
Retail Pack Price Year-End	CHF	-	3.20	3.30
Ex-Factory Price	$/000	-	29.85	30.69
Total Marginal Contribution	$/000	-	21.36	21.93
Direct Marketing	$/000	-	(a)	(a)
Launch Date	1991			

Footnote:

(a) included in total family spending.

2500066281

SWITZERLAND - LINE EXTENSION PROFILE

PHILIP MORRIS ULTRA LIGHTS 100 BOX

Philip Morris Ultra Lights 100s will take advantage of the family's growth momentum and lead the development of the 100 mm ultra light segment.

US-blend; 1 or 2 mg tar; 0.1 - 0.2 mg nicotine; 100 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	20.0	30.0
Market Share (%)		-	0.13	0.19
Retail Pack Price Year-End	CHF	-	3.20	3.30
Ex-Factory Price	$/000	-	31.28	32.30
Total Marginal Contribution	$/000	-	19.53	20.18
Direct Marketing	$/000	-	(a)	(a)

Launch Date 1991

Footnote:

(a) included in total family spending.

PHILIP MORRIS LIGHTS BOX

Philip Morris Lights will build on the successful Philip Morris franchise by offering a full flavor line extension, supplementing the existing PM Extra 4mg tar and PM Ultra at 1 mg tar.

US-blend; 8 mg tar; 0.8 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	-	20.0
Market Share (%)		-	-	0.13
Retail Pack Price Year-End	CHF	-	-	3.30
Ex-Factory Price	$/000	-	-	30.69
Total Marginal Contribution	$/000	-	-	21.91
Direct Marketing	$/000	-	-	(a)

Launch Date 1992

Footnote:

(a) included in total family spending.

2500066282

SWITZERLAND - LINE EXTENSION PROFILE

MERIT DE NIC

We will build on Merit's technological heritage and success by line-extending with a breakthrough product aimed at consumers concerned by the nicotine level.

US-blend; 6 mg tar; 0 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	-	10.0
Market Share (%)		-	-	0.06
Retail Pack Price Year-End	CHF	-	-	3.30
Ex-Factory Price	$/000	-	-	30.69
Total Marginal Contribution	$/000	-	-	11.18
Direct Marketing	$/000	-	-	(a)

Launch Date 1992

Footnote:

(a) included in total family spending.

2500066283

FINLAND - NEW BRAND PROFILE

CHESTERFIELD

Chesterfield will be positioned as an alternative to Camel for the smokers who want an international brand other than Marlboro. The domestic launch will be supported by the introduction of the brand in the duty free business in order to expose Finnish consumers to the international image campaign.

US-blend; 15mg tar; 0.9 mg nicotine; 84 mm soft

		OB 1990	1991	1992
Unit Volume (millions)		22.4	40.0	60.0
Market Share (%)		0.30	0.54	0.81
Retail Pack Price Year-End	FIM	13.80	14.80	15.30
Ex-Factory Price	$/000	20.19	22.26	23.90
Total Marginal Contribution	$/000	11.39	13.11	14.43
Direct Marketing	$/000	8.42	7.96	6.06

Launch Date 1990

2500066284

FINLAND - LINE EXTENSION PROFILE

MARLBORO ULTRALIGHTS

The Marlboro Ultralights line extension will exploit the growing Marlboro franchise, providing an alternative in the premium ultralight segment to attract smokers away from Barclay.

US-blend; 4 mg tar; 0.4 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	40.0	50.0
Market Share (%)		-	0.54	0.67
Retail Pack Price Year-End	FIM	-	14.80	15.90
Ex-Factory Price	$/000	-	25.95	27.88
Total Marginal Contribution	$/000	-	10.44	11.65
Direct Marketing	$/000	-	(a)	(a)

Launch Date 1991

Footnote:

(a) included in total family spending.

2500066285

FINLAND - LINE EXTENSION PROFILE

BELMONT 2002 MENTHOL BOX

Belmont 2002 Menthol will offer a low tar Belmont menthol line extension capitalizing on the overall success of the Belmont family, in particular Belmont 2002, and the growth of the light and menthol segments.

US-blend; 5 mg tar; 0.5 mg nicotine; 80 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	15.0	24.0
Market Share (%)		-	0.20	0.32
Retail Pack Price Year-End	FIM	-	14.20	15.30
Ex-Factory Price	$/000	-	24.90	26.83
Total Marginal Contribution	$/000	-	9.01	10.16
Direct Marketing	$/000	-	(a)	(a)
Launch Date	1991			

Footnote:

(a) included in total family spending.

2500066286

FINLAND - NEW BRAND PROFILE

PHILIP MORRIS SUPERLIGHTS BOX

Philip Morris Superlights will reinforce our presence in the growing superlight segment to better contain Barclay, and have a second international entry, in addition to Marlboro, throughout the Scandinavia/Finland Region.

US-blend; 4 mg tar; 0.4 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	-	30.0
Market Share (%)		-	-	0.40
Retail Pack Price Year-End	FIM	-	-	15.90
Ex-Factory Price	$/000	-	-	27.88
Total Marginal Contribution	$/000	-	-	11.14
Direct Marketing	$/000	-	-	11.36

Launch Date 1992

2500066287

SAUDI ARABIA - LINE EXTENSION PROFILE

MERIT DE NIC

Merit De Nic will rejuvenate the Merit family via the launch of the nicotine-free product to appeal to the increasing proportion of health-conscious smokers. If successful in Saudi, the brand will be launched in other GCC markets. It is planned for launch in Kuwait in 1991.

US-blend; 6 mg tar; 0 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		29.0	40.0	55.4
Market Share (%)		0.22	0.30	0.42
Carton Price Year-End	SR	33.00	33.00	33.00
Retail Pack Price Year-End	SR	3.50	3.50	3.50
Ex-Factory Price	$/000	22.60	22.60	22.60
Total Marginal Contribution	$/000	7.24	6.63	6.00
Direct Marketing	$/000	(a)	5.63	4.73

Launch Date 1990

Footnote:

(a) included in total family spending.

2500066288

SAUDI ARABIA - LINE EXTENSION PROFILE

MARLBORO ULTRALIGHTS

Marlboro Ultralights will be launched to extend and strengthen the Marlboro franchise by offering an alternative in the rapidly growing premium price ultralight category.

US-blend; 5.0 mg tar; 0.4 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	53.0	86.0
Market Share (%)		-	0.40	0.65
Carton Price Year-End	SR	-	33.00	33.00
Retail Pack Price Year-End	SR	-	3.50	3.50
Ex-Factory Price	$/000	-	22.60	22.60
Total Marginal Contribution	$/000	-	12.45	12.06
Direct Marketing	$/000	-	7.08	2.53

Launch Date 1991

2500066289

KUWAIT - NEW BRAND PROFILE

CONGRESS

Congress will be launched in the low price segment to reinforce our brand portfolio in that segment in order to contest Gold Coast and Viceroy. The launch will be undertaken as soon as possible, and followed by the launch of a light version.

Full Flavor: US-blend; 12 mg tar; 0.8 mg nicotine; 84 mm box

Lights : US-blend; 8 mg tar; 0.6 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume	(millions)	-	20.0	22.0
Market Share	(%)	-	0.75	0.82
Carton Price Year-End	KWD	-	1.80	1.80
Retail Pack Price Year-End	KWD	-	0.19	0.19
Ex-Factory Price	$/000	-	13.50	13.50
Total Marginal Contribution	$/000	-	4.98	4.71
Direct Marketing	$/000	-	2.13	2.27

Launch Date 1991

2500066290

KUWAIT - NEW BRAND PROFILE

PARLIAMENT

Parliament will reinforce our presence in the premium price segment. The product will be made in the USA. The advertising campaign will be similar to that in Turkey. We will follow with a Parliament Lights launch, if Parliament's full flavor results are positive.

Full Flavor: US-blend; 12 mg tar; 0.8 mg nicotine; 83 mm box

Lights : US-blend; 8 mg tar; 0.6 mg nicotine; 83 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	12.0	15.0
Market Share (%)		-	0.45	0.56
Carton Price Year-End	KWD	-	3.10	3.10
Retail Pack Price Year-End	KWD	-	0.32	0.32
Ex-Factory Price	$/000	-	25.90	25.90
Total Marginal Contribution	$/000	-	14.47	14.02
Direct Marketing	$/000	-	16.25 (a)	13.60 (a)

Launch Date 1991

Test Market date 1990

Footnote:

(a) Before any marketing contribution of $2.00/000.

2500066291

KUWAIT - LINE EXTENSION PROFILE

MARLBORO ULTRALIGHTS

As in Saudi Arabia, Marlboro Ultralights will be launched to extend and strengthen the Marlboro franchise by offering an alternative in the growing premium price ultra category.

US-blend; 5 mg tar; 0.4 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	20.0	30.0
Market Share (%)		-	0.75	1.1
Carton Price Year-End	KWD	-	3.10	3.10
Retail Pack Price Year-End	KWD	-	0.32	0.32
Ex-Factory Price	$/000	-	25.90	25.90
Total Marginal Contribution	$/000	-	15.75	15.36
Direct Marketing	$/000	-	15.00 (a)	11.00 (a)

Launch Date 1991

Footnote:

(a) Before any marketing contribution of $2.00/000.

2500066292

KUWAIT - LINE EXTENSION PROFILE

MERIT DE NIC

Merit De Nic will accelerate the Merit family's momentum via the launch of the nicotine-free product to appeal to the increasing proportion of health-conscious smokers.

US-blend; 6 mg tar; 0 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	10.0	20.0
Market Share (%)		-	0.37	0.75
Carton Price Year-End	KWD	-	3.10	3.10
Retail Pack Price Year-End	KWD	-	0.32	0.32
Ex-Factory Price	$/000	-	25.90	25.90
Total Marginal Contribution	$/000	-	10.19	9.56
Direct Marketing	$/000	-	12.50 (a)	6.65 (a)

Launch Date 1991

Footnote:

(a) Before any marketing contribution.

2500066293

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